

Village of Corfu

Sewer Operations

NOVEMBER 2018



OFFICE OF THE NEW YORK STATE COMPTROLLER
Thomas P. DiNapoli, State Comptroller

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Report Highlights

Village of Corfu

Audit Objective

Determine whether the Board and Village officials effectively managed sewer operations by reasonably estimating budgets, ensuring a good financial condition and properly billing, collecting and recording sewer rent revenue.

Key Findings

- The Board routinely adopted budgets that were not reasonably estimated, resulting in operating deficits.
- The Board did not develop and adopt multiyear capital and financial plans or receive comprehensive financial reports.
- Because the Board did not annually audit the Clerk-Treasurer's financial records, it did not identify errors or inaccuracies in the records.

Key Recommendations

- Adopt more realistic budgets.
- Develop and adopt written multiyear capital and financial plans.
- Annually audit, or contract with a certified public accountant to audit, the Clerk-Treasurer's records.

Village officials agreed with our recommendations and indicated they planned to initiate corrective action.

Background

The Village of Corfu (Village) is located in the Town of Pembroke (Town) in Genesee County. The Village provides sewer services to Village residents and customers in two sewer districts that serve portions of the Towns of Darien and Pembroke.

The Village's elected Board of Trustees (Board) includes four Trustees and a Mayor. The Board is responsible for oversight and general management of the Village's financial operations. The Mayor is the Village's chief executive officer and is responsible for its day-to-day management. The Clerk-Treasurer, who is appointed by the Mayor, is responsible for maintaining custody of all Village funds, maintaining the Village's accounting records and sewer fund billing system and billing and collecting sewer revenue.

Quick Facts

Population	700
Sewer Customers	335
2017-18 Budgeted Sewer Appropriations	\$205,990

Audit Period

June 1, 2013 – November 17, 2017

We extended our audit scope period back to June 1, 2010 to review sewer billing rates.

Sewer Fund Operations

How Should Villages Effectively Manage Sewer Operations?

Village boards and officials are responsible for providing oversight of sewer fund operations. This includes adopting reasonably estimated budgets based on historical trends and other known factors to ensure that recurring revenues finance recurring expenditures and a reasonable fund balance is maintained to provide a cushion for unforeseen expenditures.

Village boards are required by law¹ to annually audit, or contract with a certified public accountant (CPA) to audit, the clerk-treasurer's financial records. Adequate and accurate accounting records help a board assess the sewer fund's financial condition and operations.

Boards should receive complete and accurate monthly reports that provide detailed financial information that can be used to monitor the sewer fund's financial operations. Monthly reports should include a cash flow analysis and detailed year-to-date budget to actual comparisons of revenues and expenditures by fund, which would help the board adjust the budget accordingly. Because a board is ultimately responsible for the sewer fund's financial operations, it should require the clerk-treasurer to present adequate monthly financial reports.

Village officials should develop comprehensive multiyear financial and capital plans to estimate the future costs of ongoing services and capital needs. Effective multiyear plans project operating and capital needs and financing sources over a three- to five-year period and allow officials to identify developing revenue and expenditure trends and set long-term priorities and goals.

The Board Needs To Better Manage Sewer Fund Financial Operations

The Board needs to improve its monitoring and oversight of the sewer fund's financial condition. The Board routinely adopted budgets that were not reasonably estimated. This caused three years of operating deficits (Figure 1), which required the Board to make interfund transfers and temporarily borrow cash from the general fund to support sewer fund financial operations.

¹ New York State Village Law, Section 4-408(e)

Figure 1: Sewer Fund – Budget-to-Actual Comparisons and Operating Results

	2013-14	2014-15	2015-16	2016-17	Totals
Estimated Revenues					
Estimated Revenues ^a	\$102,045	\$138,538	\$199,307	\$205,670	\$645,560
Actual Revenues	\$100,200	\$121,769	\$172,759	\$175,741	\$570,469
Overestimated Revenues	\$1,845	\$16,769	\$26,548	\$29,929	\$75,091
Percentage Overestimated	2%	14%	15%	17%	13%
Estimated Expenditures					
Appropriations ^b	\$124,752	\$149,995	\$199,307	\$211,677	\$685,731
Actual Expenditures	\$110,485	\$164,085	\$179,819	\$165,175	\$619,564
(Under) Overestimated Appropriations	\$14,267	(\$14,090)	\$19,488	\$46,502	\$66,167
Percentage (Under) Overestimated	13%	(9%)	11%	28%	11%
Net Budget Variance	\$12,422	(\$30,859)	\$7,060	\$16,573	(\$8,924)
Operating Results					
Operating Surplus (Deficit)	(\$10,285)	(\$42,316)	(\$7,060)	\$10,566	(\$49,095)

a Excludes appropriated fund balance and interfund transfers in

b Excludes interfund transfers out

The variances between budgeted amounts and actual revenues and expenditures each year show a lack of realistic budgeting. The Board developed budgets using historical budget numbers but did not adequately consider the effect that problematic cash flow issues and the formation of two new sewer districts would have on the annual budgets.

Revenue estimates were inadequate because the Board anticipated that the Village would receive additional revenue from the new sewer districts sooner and in greater amounts than it actually did. The Board also inadequately estimated spending for contractual items (e.g., supplies and consumables) for the new sewer districts as a result of higher volume with additional customers.

The sewer fund routinely experienced cash flow issues. The receivable amounts for billed and unbilled sewer rents increased from \$5,800 as of May 31, 2011 to \$50,000 (754 percent) as of May 31, 2017. Village officials confirmed our analysis and told us this increase was due to the following:

- The different timing of quarterly billing cycles between one large commercial sewer customer's billings and residential customers' billings
- The formation of two new sewer districts in 2014-15, which increased the amount of sewer rents being billed each quarter
- A 21 percent sewer rent rate increase in 2014-15

- The larger customer base increased the previously existing timing delays, causing greater amounts of unbilled receivables and unpaid bills, which were not relieved in a timely manner.²

As a result, the sewer fund relied on interfund transfers and cash advanced from the general fund to support ongoing sewer operations (Figure 2).

Figure 2: Interfund Activity Supporting The Sewer Fund

	2013-14	2014-15	2015-16	2016-17
Permanent Interfund Transfer From General Fund	\$23,200	\$8,000	\$0	\$0
Temporary Cash Advance From General Fund	\$0	\$37,000	\$26,300	\$61,300

While the Clerk-Treasurer prepared and provided monthly budget-to-actual status reports on the sewer fund’s activities to the Board, she did not include a cash flow analysis. In addition, the Clerk-Treasurer recorded that the sewer fund owed the general fund \$61,000³ as of May 31, 2017, but she could not explain the purpose of these entries or provide evidence for their accuracy. As a result, we question the accuracy of her records.

Further, although cash advances between funds are required by law⁴ to be repaid within the same fiscal year, the sewer fund’s unrestricted⁵ cash totaled approximately \$3,000 as of May 31, 2017, which was insufficient to repay the general fund, regardless of the amount that was owed.

The potential discrepancies were not detected because the Board did not audit, or contract with a CPA to audit, the Clerk-Treasurer’s records in 2014-15 and 2016-17. Village officials told us they were trying to save money by not hiring a CPA every year. Consequently, the Board did not ensure that the Clerk-Treasurer properly accounted for and reported the Village’s financial activities.

In addition, the Village did not have comprehensive multiyear financial and capital plans. If the Village had these plans, the Board could have incorporated this information into its budget development process and better anticipated its effect on current budgets.

Information about cash flows and comprehensive multiyear financial and capital plans, along with the statutorily required annual audit, would have provided the Board with better information to evaluate and manage sewer fund operations.

² We examined both unpaid and relieved bills. Refer to “The Village Properly Billed and Collected Sewer Rents” section for further information.

³ This amount was 29 percent of the 2016-17 budgeted sewer fund appropriations.

⁴ New York State General Municipal Law, Article 2, Section 9-a

⁵ The Village reported additional cash in the sewer fund totaling approximately \$36,000 that is restricted for a capital reserve.

How Can Villages Ensure Sewer Rents Are Properly Billed and Collected?

To also effectively manage sewer operations, the board and village officials should adopt written policies and procedures for billing and collecting sewer rents. This guidance should clearly outline all billing rates and fee schedules and describe how to process special billing situations.

The Village Properly Billed and Collected Sewer Rents

Nearly all of the Village's sewer customers are billed quarterly in July, October, January and April. One large commercial customer is billed quarterly but on a different cycle, with bills going out in August, November, February and May.

The Clerk-Treasurer bills customers for sewer charges at Board-approved rates based on water usage reported to the Village by the Monroe County Water Authority (MCWA). The Clerk-Treasurer provides unpaid sewer bills to the Board for review and approval then adds them to the subsequent year's tax levy. At the end of the Village's fiscal year, the Clerk-Treasurer records the corresponding receivable for unpaid bills in the accounting system. During the year, the Clerk-Treasurer accounts for the receivable in the Village's sewer billing system.

We reviewed the April 2017 quarterly sewer billing, totaling approximately \$31,000,⁶ because it was the most recently completed billing cycle when we began our audit fieldwork in October 2017. We also selected April 2017 because overdue and unpaid sewer billings from this billing cycle were available for our examination.

We examined billing records for all customers billed in April 2017 to determine whether customers were properly billed and whether all the corresponding sewer rent revenue was properly collected. Additionally, we reviewed the May 2017 quarterly billing for the one commercial customer, whose bill totaled approximately \$17,000, to determine whether the customer was properly billed and the sewer rent was properly collected.

While the Board has not adopted a written policy and Village officials have not developed written procedures to address the sewer rent billing and collection process, we did not identify any significant exceptions. Although we discussed minor exceptions with Village officials, we generally found that the Village properly billed and collected sewer rent revenue.

⁶ Village residents (\$25,000), sewer district #1 (\$4,200) and sewer district #2 (\$1,800)

What Do We Recommend?

The Board should:

1. Monitor the sewer fund's financial condition to ensure that recurring revenues, including user rates, are sufficiently adequate to fund recurring expenditures.
2. Annually audit, or contract with a CPA to audit, the Clerk-Treasurer's records as required by law.

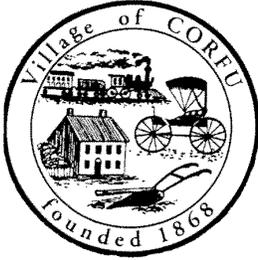
The Board and Village officials should:

3. Establish reasonable estimates of revenues and appropriations in the sewer fund's budget.
4. Construct a plan to repay outstanding interfund loans or authorize permanent interfund transfers from the general fund.
5. Develop, adopt and routinely update comprehensive written multiyear financial and capital plans and use these plans during the budget development process.
6. Develop and adopt written policies and procedures that provide guidance for the sewer billing and collection process.

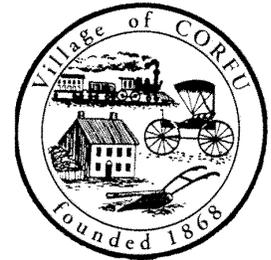
The Clerk-Treasurer should:

7. Prepare and provide more comprehensive sewer fund financial reporting, such as cash flow reports, to the Board.
8. Investigate and correct the errors and inaccuracies in the sewer fund's due to and due from accounts.

Appendix A: Response From Village Officials



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October 22, 2018

Jeffrey D. Mazula, Chief Examiner
Office of the State Comptroller
Buffalo Regional Office
295 Main Street, Suite 1032
Buffalo, NY 14203-2510

Dear Mr. Mazula,

Please accept this letter as official acknowledgement in receiving the findings of the recent audit on Sewer Operations for the period of June 1, 2013 – November 17, 2017. The exit conference for the audit was held on October 2, 2018. The findings were clearly explained.

The list of recommendations is being duly addressed by the Village Board, and the members are working to implement an effective corrective action plan. The Board of Trustees will submit a corrective action plan.

The Village Board recognizes its responsibilities to the Village of Corfu taxpayers. We take your recommendations very seriously and will do whatever is necessary to correct, or improve on, the issues that have been presented to us.

Respectfully submitted,

✓ Joseph Johnson, Mayor
VILLAGE OF CORFU

Appendix B: Audit Methodology and Standards

We conducted this audit pursuant to Article V, Section 1 of the State Constitution and the State Comptroller's authority as set forth in Article 3 of the New York State General Municipal Law. To achieve the audit objective and obtain valid audit evidence, our audit procedures included the following:

- We inquired, obtained and reviewed available Board-adopted policies, resolutions, rate increases and written procedures, annual audits of the Clerk-Treasurer's records and multiyear financial and capital plans relating to sewer fund operations to determine whether the Board and Village officials effectively managed sewer operations.
- We interviewed Board members and Village officials responsible for sewer fund management to obtain an understanding of current procedures and determine whether they are effective.
- We reviewed Board-adopted sewer fund budgets and results of operations for 2013-14 through 2016-17 to determine whether budgeted estimates were reasonable and whether operating surpluses or deficits occurred.
- We analyzed the sewer fund's annual financial reports and the 2013-14 and 2015-16 audited financial statements to identify any historical trends relating to the fund's financial condition. We inquired with the Board and Village officials regarding any discrepancies or questions that we had from this analysis. We obtained and examined any documented evidence provided by the Board or Village officials regarding our concerns to determine whether it was sufficiently explained or supported.
- We reviewed monthly financial reports that the Clerk-Treasurer provided to the Board and sewer fund financial records in the accounting system to determine whether they were accurate and reliable.
- We analyzed sewer billing rates and rate structures for 2010-11 through 2016-17 to determine how often rates were adjusted by the Board. We also analyzed the amount of increase in the total sewer fund billed and unbilled receivable amounts from May 31, 2011 through May 31, 2017 and inquired with the Board and Village officials regarding the reasons for why the increase occurred.
- The Village bases its sewer bills on water usage reported to the Village by the Monroe County Water Authority (MCWA). We inquired with MCWA officials to gain an understanding of the methods in which water usage amounts are collected and subsequently reported to the Village. We then obtained water usage reports directly from MCWA for the April and May 2017 sewer billing periods and compared them to the water usage reports that the Clerk-Treasurer had based the original billings on to determine whether the water usage amounts and number of accounts were the same.

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- We selected the entire April 2017 quarterly sewer billing, totaling approximately \$31,000, and the May 2017 quarterly billing for the Village's commercial customer, totaling approximately \$17,000, to determine whether the billings were complete; customers were properly billed; payments received were properly collected, recorded and deposited timely; and unpaid amounts were properly handled.
 - We traced all April and May 2017 sewer billed amounts to the Clerk-Treasurer's receipt records, bank statement deposits and recorded unpaid receivables to determine whether all amounts billed were properly received and recorded or properly recorded as unpaid.
 - We compared all Village properties listed on the 2017-18 tax roll to the April and May 2017 sewer bills to determine whether all Village customers were billed or the reason they were not included was appropriate.
 - We reviewed the sewer fund bank account reconciliations for April through August 2017 to determine whether the reconciliations were properly performed and cash receipted from the April and May 2017 sewer fund billings was deposited timely and accurately recorded in the accounting system.
 - We reviewed unpaid accounts as of May 31, 2016 to determine whether they were properly relieved. We selected the 2015-16 unpaids as this was the most recently completed fiscal year with sufficient time to relevy unpaid accounts when we began our audit fieldwork in October 2017.

We conducted this performance audit in accordance with GAGAS (generally accepted government auditing standards). Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objective. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objective.

Unless otherwise indicated in this report, samples for testing were selected based on professional judgment, as it was not the intent to project the results onto the entire population. Where applicable, information is presented concerning the value and/or size of the relevant population and the sample selected for examination.

A written corrective action plan (CAP) that addresses the findings and recommendations in this report should be prepared and provided to our office within 90 days, pursuant to Section 35 of General Municipal Law. For more information on preparing and filing your CAP, please refer to our brochure, *Responding to an OSC Audit Report*, which you received with the draft audit report. We encourage the Village Board to make the CAP available for public review in the Clerk-Treasurer's office.

Appendix C: Resources and Services

Regional Office Directory

www.osc.state.ny.us/localgov/regional_directory.pdf

Cost-Saving Ideas – Resources, advice and assistance on cost-saving ideas

www.osc.state.ny.us/localgov/costsavings/index.htm

Fiscal Stress Monitoring – Resources for local government officials experiencing fiscal problems

www.osc.state.ny.us/localgov/fiscalmonitoring/index.htm

Local Government Management Guides – Series of publications that include technical information and suggested practices for local government management

www.osc.state.ny.us/localgov/pubs/listacctg.htm#lmgm

Planning and Budgeting Guides – Resources for developing multiyear financial, capital, strategic and other plans

www.osc.state.ny.us/localgov/planbudget/index.htm

Protecting Sensitive Data and Other Local Government Assets – A non-technical cybersecurity guide for local government leaders

www.osc.state.ny.us/localgov/lgli/pdf/cybersecurityguide.pdf

Required Reporting – Information and resources for reports and forms that are filed with the Office of the State Comptroller

www.osc.state.ny.us/localgov/finreporting/index.htm

Research Reports/Publications – Reports on major policy issues facing local governments and State policy-makers

www.osc.state.ny.us/localgov/researchpubs/index.htm

Training – Resources for local government officials on in-person and online training opportunities on a wide range of topics

www.osc.state.ny.us/localgov/academy/index.htm

Contact

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